

NEWPORT LEGACY SEOUL KOREA: AUSSIE MARKET CONTINUES TO SURGE

NEWPORT LEGACY WEALTH MANAGEMENT SEOUL KOREA THANKS Virginia Trioli AND ABC.NET FOR REPRODUCING THE FOLLOWING ARTICLE.

NEWPORT LEGACY SEOUL KOREA BROADLY AGREES WITH THE FOLLOWING.

Virginia Trioli discusses the strong performance of the markets this week with economics correspondent Stephen Long.

VIRGINIA TRIOLI: Another day, another record high on the stockmarket. Australia's key share index gained more than 5 per cent this week, it's now up more than 1,000 points since the height of the credit crunch in mid August, and it's a similar story in the US.

To discuss this, I'm joined by economics correspondent Stephen Long.

Stephen, what is going on with this market? Last week weren't we talking about a possibility of a recession in the US?

STEPHEN LONG: Yes, and then Ben Bernanke came along and cut rates by half a per cent. And now, bad news is good news, Virginia, because it means there'll be further rate cuts. So when there were weak housing figures in the US, had the biggest slump in new home starts in many years, the markets rallied. More rates cuts on the way. Good news is good news because it means the economy is good, but bad news is good news because it means more rates cuts. The markets are happy. Rally, rally, rally. But if you think about it logically, if the Fed is happy to cut rates in the US because of a weakening economy, then it stands to reason that will hit corporate profits at some stage, perhaps tonight. That's got to dawn on investors. So I'm not sure how long it can go on.

VIRGINIA TRIOLI: What's driving the local market here? What's driving that in particular?

STEPHEN LONG: The commodities boom. We're seeing soaring prices for metals, for oil. And that is partly because of the Fed rate cuts and what they've done to the US dollar. The US dollar has fallen precipitously in value and that's pushed up commodities worldwide. As a consequence, you're seeing Australia rally, the big mining companies, BHP Billiton, Rio Tinto at record or near-record highs, big national income coming in. So that's why we've got our rally. It's perhaps more rational to some extent than the US rally, but there's also just this big bubble of money around the world so it's got to go somewhere.

Emerging markets have rallied even more strongly than here and Asian stocks are booming as well. You know, there's just so much money sloshing around the globe. If people get some confidence back, where does it go? It's not going to go into housing anymore after the mortgage meltdown in the US. Is equities the next bubble?

VIRGINIA TRIOLI: But apart from the heat in the market, the Reserve Bank is quite positive about prospects here, isn't it?

STEPHEN LONG: Very much so. I mean, there were two reports or there was a report and a speech by the Reserve Bank this week and they're the anti Hanrahans. They're saying we won't all be ruined. But there were frightening statistics nonetheless in one of the speeches by the deputy governor of the Reserve Bank, Ric Battellino. He observed in passing that the credit growth we've seen in the past three decades has no precedent in 150 years of figures, and the only time that the growth in credit has come close was in 1880 and 1920. Now those who know their history know that in 1890 Australia had the worst crash it's ever experienced. In the 1930s after that big credit run up in the '20s, well we know what happened there, so I'm not entirely reassured, but let's hope they're right and we won't all be ruined.

VIRGINIA TRIOLI: That's right and we're not just looking at another bubble. Thank you, Stephen.

STEPHEN LONG: You're welcome.